

Bus transportation for community's isolated areas. An organization formed as a Model Cities demonstration project under the Demonstration Cities and Metropolitan Development Act of 1966 to provide bus transportation to isolated areas of a community not served by the existing city bus system is providing bus service under the authority of the Federal and local governments and qualifies for exemption under section 501(c)(3) of the Code.

Advice has been requested whether the nonprofit organization described below, which otherwise qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954, is operated exclusively for charitable purposes.

The organization was formed as a Model Cities demonstration project under the Demonstration Cities and Metropolitan Development Act of 1966, 42 U.S.C. section 3301, et seq. (1970), to provide bus transportation to a community, many of whose residents do not otherwise have any means of transportation. One of the statutory purposes of the foregoing act is to improve the public welfare by establishing better access between homes and jobs. The transportation system provides residents with access to business districts and enables them to maintain employment. The system serves isolated areas of the community not served by the existing city bus system, and it also provides certain bus service to business districts on weekends and other times when the city system is not running.

As a Model Cities project, the organization has been approved by the local government and works in coordination with local governmental agencies. Its income is from fares, contributions, and governmental grants.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' includes lessening of the burdens of government.

Rev. Rul. 71-29, 1971-1 C.B. 150, holds that an organization's grant of funds to a city's transit authority to insure continuation of bus service for the city is a charitable disbursement. The organization is assisting the municipal government and conferring a benefit upon the entire community.

In this case, the organization, itself, is providing bus service under the authority of the Federal and local governments. Therefore, it is lessening the burdens of government so long as it is operated as a governmental program.

Accordingly, the organization, under the circumstances

described, is operated exclusively for charitable purposes and qualifies for exemption from Federal income tax under section 501(c)(3) of the Code.

Compare Rev. Rul. 77-246, 1977-2 C.B. 190, which holds that an organization providing otherwise unavailable transportation services only to the elderly and handicapped is exempt under section 501(c)(3) and Rev. Rul. 78-69, page 156, this Bulletin, which holds that an organization formed by community residents to provide rush hour bus service is exempt as a social welfare organization under section 501(c)(4).

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to the Form 1023. See sections 1.501(a)-1 and 1.508-1(a) of the regulations.